

**SABINE RIVER AUTHORITY OF TEXAS
AND
SABINE RIVER AUTHORITY,
STATE OF LOUISIANA
TOLEDO BEND - JOINT OPERATION**

**FINANCIAL REPORT
AUGUST 31, 2009**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 11/25/09

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS	1 and 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 5
BASIC FINANCIAL STATEMENTS	
Statements of net assets	8
Statements of revenues, expenses and changes in fund net assets	9
Statements of cash flows	10
Notes to financial statements	11 - 15
SUPPLEMENTAL INFORMATION	
Schedule of insurance in force	16
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	17 and 18
Schedule of findings and responses	19
Schedule of prior year findings	20



BROUSSARD, POCHÉ, LEWIS & BREAU, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS**

4112 West Congress
P.O. Box 61400
Lafayette, Louisiana 70596-1400
phone: (337) 988-4930
fax: (337) 984-4574
www.bplb.com

Other Offices:

Crowley, LA
(337) 783-5693
Opelousas, LA
(337) 942-5217
New Iberia, LA
(337) 364-4554
Church Point, LA
(337) 684-2855

Frank A. Stagno, CPA*
Scott J. Broussard, CPA*
L. Charles Abshire, CPA*
P. John Blanchet, III, CPA*
Martha B. Wyatt, CPA*
Mary A. Castille, CPA*
Joey L. Breau, CPA*
Craig J. Viator, CPA*
Stacey E. Singleton, CPA*
John L. Istre, CPA*
Tricia D. Lyons, CPA*
Mary T. Miller, CPA*
Elizabeth J. Moreau, CPA*
Frank D. Bergeron, CPA*
Lonnie J. Hebert, CPA*

Retired:

Sidney L. Broussard, CPA 1925-2005
Leon K. Poché, CPA 1984
James H. Breau, CPA 1987
Erma R. Walton, CPA 1988
George A. Lewis, CPA 1992
Geraldine J. Wimberley, CPA 1995
Lawrence A. Cramer, CPA 1999
Ralph Friend, CPA 2002
Donald W. Kelley, CPA 2005
George J. Trappey, III, CPA 2007
Terrel P. Dressel, CPA 2007
Herbert Lemoine II, CPA 2008

*Members of American Institute of
Certified Public Accountants
Society of Louisiana Certified
Public Accountants*

* A Professional Accounting Corporation

To the Board of Directors,
Sabine River Authority of Texas, and
The Board of Commissioners,
Sabine River Authority, State of Louisiana

We have audited the accompanying basic financial statements of the Toledo Bend - Joint Operation, a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, as of and for the years ended August 31, 2009 and 2008. These financial statements are the responsibility of the Joint Operation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Toledo Bend - Joint Operation as of August 31, 2009 and 2008, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2009, on our consideration of the Toledo Bend - Joint Operation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying information listed as supplemental information in the table of contents is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Broussard, Poché, Lewis & Ormeau LLP.

Lafayette, Louisiana
October 12, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Toledo Bend - Joint Operation (TBJO) annual financial report presents a discussion and analysis of TBJO's financial performance during the fiscal year that ended August 31, 2009. Please read this section in conjunction with TBJO's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

TBJO's net assets were \$64,514,517 at August 31, 2009. Of this amount, \$63,214,542 was invested in capital assets and \$1,299,975 was unrestricted. Net assets increased by \$638,151 and \$1,719,670 during the 2009 and 2008 fiscal years, respectively, and decreased by \$932,247 during the 2007 fiscal year.

TBJO's capital transfers in were \$3,500,000, \$4,400,000 and \$1,800,000 during the 2009, 2008, and 2007 fiscal years, respectively and operating expenses were \$3,350,990, \$3,379,765 and \$3,072,401, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial report consists of three parts: *Management's Discussion and Analysis* (this section), the basic financial statements, and the notes to the financial statements.

The basic financial statements present information for TBJO as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the statement of net assets and the statement of revenues, expenses and changes in fund net assets.

The statement of net assets presents the assets and liabilities. The difference between total assets and total liabilities is the net assets and may provide a useful indicator of whether the financial position of TBJO is improving or deteriorating.

The statement of revenues, expenses and changes in fund net assets presents information showing how TBJO's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, transactions are recorded that will not affect cash until future periods.

The financial statements provide information about TBJO's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

TBJO's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of TBJO are included in the statement of net assets.

CONDENSED FINANCIAL INFORMATION

The following tables reflect condensed financial information for TBJO:

TABLE I
CONDENSED STATEMENT OF NET ASSETS

ASSETS	2009	2008	2007
Current assets	\$ 1,502,035	\$ 1,412,214	\$ 56,075
Capital assets	63,214,542	62,735,989	62,395,756
	<u>\$64,716,577</u>	<u>\$64,148,203</u>	<u>\$62,451,831</u>
LIABILITIES AND NET ASSETS			
Current liabilities	\$ 202,060	\$ 271,837	\$ 295,135
Net assets:			
Invested in capital assets	\$63,214,542	\$62,735,989	\$62,395,756
Unrestricted	1,299,975	1,140,377	(239,060)
Total net assets	<u>\$64,514,517</u>	<u>\$63,876,366</u>	<u>\$62,156,696</u>
Total liabilities and net assets	<u>\$64,716,577</u>	<u>\$64,148,203</u>	<u>\$62,451,831</u>

TABLE II
CONDENSED STATEMENT OF REVENUE, EXPENSES, AND
CHANGES IN FUND NET ASSETS

	2009	2008	2007
Operating revenues	\$ 463,050	\$ 686,366	\$ 344,252
Operating expenses:			
Salaries and fees	\$ 2,071,327	\$ 2,093,582	\$ 1,846,686
Supplies	101,600	129,079	89,220
Maintenance	157,399	127,811	104,343
Sundry charges	107,700	115,400	115,400
Depreciation	759,605	154,012	756,686
Miscellaneous	153,359	759,881	160,066
Total operating expenses	<u>\$ 3,350,990</u>	<u>\$ 3,379,765</u>	<u>\$ 3,072,401</u>
Operating loss	\$ (2,887,940)	\$ (2,693,399)	\$ (2,728,149)
Non operating revenue (expenses), net	26,091	13,069	(4,098)
Capital transfers in	3,500,000	4,400,000	1,800,000
Change in net assets	<u>\$ 638,151</u>	<u>\$ 1,719,670</u>	<u>\$ (932,247)</u>

FINANCIAL ANALYSIS

TBJO's total net assets increased by \$638,151 and \$1,719,670 or 1.0% and 2.8% for the years ended August 31, 2009 and 2008, respectively, and decreased by \$932,247, or 1.5% for the year ended August 31, 2007. The increases in net assets for the years ended August 31, 2009 and 2008 compared to the decrease in 2007 is a result of increased capital contributions from the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana. Capital contributions were increased as a result of the FERC relicensing process.

FERC relicensing costs totaled \$1,133,547, \$985,304 and \$288,462 for the years ending August 31, 2009, 2008, and 2007, respectively.

CAPITAL ASSETS

As of August 31, 2009, TBJO had \$63,214,542 (net of accumulated depreciation) invested in capital assets. During the 2009 fiscal year, TBJO incurred costs of \$1,133,547 in connection with the FERC relicensing process. This amount was capitalized and will be amortized over the life of the license when it is renewed. The following table reflects the TBJO's capital assets net of accumulated depreciation:

TABLE III
CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION

	<u>2009</u>	<u>2008</u>	<u>2007</u>
FERC relicensing costs	\$ 2,118,851	\$ 985,304	\$ -
Reservoir and waterways	36,001,159	36,001,159	36,001,159
Dam and spillway	8,785,753	9,065,643	9,345,533
Hydroelectric power plant	15,767,174	16,148,339	16,529,504
Buildings, structures, and equipment	<u>541,605</u>	<u>535,544</u>	<u>519,560</u>
Total	<u>\$63,214,542</u>	<u>\$62,735,989</u>	<u>\$62,395,756</u>

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

There are currently no known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

CONTACTING TBJO'S FINANCIAL MANAGEMENT

This financial report is designated to provide our legislatures, state officials, the Louisiana Legislative Auditor's office, patrons, and other interested parties with a general overview of TBJO's finances and to demonstrate TBJO's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Debra Stagner at (409) 746-2192.

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BASIC FINANCIAL STATEMENTS

TOLEDO BEND - JOINT OPERATION

STATEMENTS OF NET ASSETS
August 31, 2009 and 2008

ASSETS	2009	2008
CURRENT ASSETS:		
Cash	\$ 861,476	\$ 544,367
Certificate of deposit	518,642	505,055
Due from other governmental entities	66,250	313,135
Accrued interest receivable	1,101	2,822
Prepaid expenses	54,566	46,835
	<u>\$ 1,502,035</u>	<u>\$ 1,412,214</u>
CAPITAL ASSETS:		
Non-depreciable	\$38,120,010	\$36,986,463
Depreciable, net	<u>25,094,532</u>	<u>25,749,526</u>
	<u>\$63,214,542</u>	<u>\$62,735,989</u>
Total assets	<u>\$64,716,577</u>	<u>\$64,148,203</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 202,060	\$ 271,837
Total liabilities	<u>\$ 202,060</u>	<u>\$ 271,837</u>
NET ASSETS		
Invested in capital assets	\$63,214,542	\$62,735,989
Unrestricted	<u>1,299,975</u>	<u>1,140,377</u>
Total net assets	<u>\$64,514,517</u>	<u>\$63,876,366</u>
Total liabilities and net assets	<u>\$64,716,577</u>	<u>\$64,148,203</u>

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Years Ended August 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Miscellaneous	<u>\$ 463,050</u>	<u>\$ 686,366</u>
OPERATING EXPENSES		
Salaries and fees	\$ 2,071,327	\$ 2,093,582
Supplies	101,600	129,079
Maintenance:		
Structures	78,545	50,428
Equipment	78,854	77,383
Sundry charges	107,700	115,400
Miscellaneous	153,359	154,012
Depreciation	<u>759,605</u>	<u>759,881</u>
Total operating expenses	<u>\$ 3,350,990</u>	<u>\$ 3,379,765</u>
Operating loss	<u>\$ (2,887,940)</u>	<u>\$ (2,693,399)</u>
Nonoperating revenue and expenses:		
Interest income	\$ 21,446	\$ 15,903
Gain (loss) on disposal of fixed assets	<u>4,645</u>	<u>(2,834)</u>
Total nonoperating revenue and expenses	<u>\$ 26,091</u>	<u>\$ 13,069</u>
Loss before contributions and transfers	<u>\$ (2,861,849)</u>	<u>\$ (2,680,330)</u>
Capital transfers in	<u>3,500,000</u>	<u>4,400,000</u>
Change in net assets	\$ 638,151	\$ 1,719,670
Net assets, beginning	<u>63,876,366</u>	<u>62,156,696</u>
Net assets, ending	<u>\$64,514,517</u>	<u>\$63,876,366</u>

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION

STATEMENTS OF CASH FLOWS
Years Ended August 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Paid to suppliers	\$ (2,668,893)	\$ (2,651,270)
Other receipts	<u>709,935</u>	<u>373,231</u>
Net cash used in operating activities	<u>\$ (1,958,958)</u>	<u>\$ (2,278,039)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital transfers in	\$ 3,500,000	\$ 4,400,000
Purchases of fixed assets	<u>(1,247,100)</u>	<u>(1,108,003)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (2,252,900)</u>	<u>\$ 3,291,997</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificate of deposit	\$ -	\$ (500,000)
Interest receipts	<u>23,167</u>	<u>13,081</u>
Net cash provided by (used in) investing activities	<u>\$ 23,167</u>	<u>\$ (486,919)</u>
Net increase in cash	\$ 317,109	\$ 527,039
Balance, at beginning of year	<u>544,367</u>	<u>17,328</u>
Balance, at ending of year	<u>\$ 861,476</u>	<u>\$ 544,367</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (2,887,940)	\$ (2,693,399)
Adjustments to reconcile operating loss to net cash used in operating activities -		
Depreciation expense	759,605	759,881
Changes in assets and liabilities:		
Due from other governmental entities	246,885	(313,135)
Prepaid expenses	(7,731)	(8,088)
Accounts payable	<u>(69,777)</u>	<u>(23,298)</u>
Net cash used in operating activities	<u>\$ (1,958,958)</u>	<u>\$ (2,278,039)</u>

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The financial statements of the Toledo Bend - Joint Operation have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Toledo Bend - Joint Operations applies all relevant GASB pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The more significant of the Operation's accounting policies are described below.

Reporting entity:

The Toledo Bend - Joint Operation is a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, and was established by joint resolution of the Texas and Louisiana Sabine River Authority. The operation is administered by an Operating Board composed of three members appointed by the Texas Authority and three members appointed by the Louisiana Authority.

Basis of presentation:

The financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange or exchange-like transactions are recognized when the exchange occurs (regardless of when cash is received or disbursed). Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions."

Operating income reported within the financial statements includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues include water royalties as well as other miscellaneous charges. Principal operating expenses are the costs associated with the operations of the fund and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

Proprietary funds are accounted for using a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. The proprietary fund uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred.

NOTES TO FINANCIAL STATEMENTS

Cash and cash equivalents:

Cash includes amounts in demand and savings deposits and cash on hand. For purposes of the statement of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. The Operation had no cash equivalents at August 31, 2009 and 2008.

Capital assets:

Capital assets, which include the dam, spillway, hydroelectric power plant, reservoir, waterways, buildings, structures and equipment are reported at historical cost. All capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Dam and spillway	67
Hydroelectric power plant	67
Buildings, structures and equipment	5 - 50

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Impairments:

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The Operation is required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. The Operation recorded no impairment losses during the year ended August 31, 2009.

Prepaid expenses:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

NOTES TO FINANCIAL STATEMENTS

Note 2. Capital Assets

Capital assets activity for the years ended August 31, 2009 and 2008 was as follows:

	Balance 09/01/08	Increases	Decreases	Balance 08/31/09
Capital assets not being depreciated:				
FERC relicensing costs	\$ 985,304	\$1,133,547	\$ -	\$ 2,118,851
Reservoir and waterways	<u>36,001,159</u>	<u>-</u>	<u>-</u>	<u>36,001,159</u>
	<u>\$36,986,463</u>	<u>\$1,133,547</u>	<u>\$ -0-</u>	<u>\$38,120,010</u>
Capital assets being depreciated:				
Dam and spillway	\$18,659,332	\$ -	\$ -	\$18,659,332
Hydroelectric power plant	25,410,994	-	-	25,410,994
Buildings, structures and equipment	<u>1,896,008</u>	<u>130,035</u>	<u>120,715</u>	<u>1,905,328</u>
	<u>\$45,966,334</u>	<u>\$ 130,035</u>	<u>\$ 120,715</u>	<u>\$45,975,654</u>
Less accumulated depreciation for:				
Dam and spillway	\$ 9,593,689	\$ 279,890	\$ -	\$ 9,873,579
Hydroelectric power plant	9,262,655	381,165	-	9,643,820
Buildings, structures and equipment	<u>1,360,464</u>	<u>98,550</u>	<u>95,291</u>	<u>1,363,723</u>
	<u>\$20,216,808</u>	<u>\$ 759,605</u>	<u>\$ 95,291</u>	<u>\$20,881,122</u>
Capital assets being depreciated, net	<u>\$25,749,526</u>	<u>\$ (629,570)</u>	<u>\$ (25,424)</u>	<u>\$25,094,532</u>
Total capital assets, net	<u>\$62,735,989</u>	<u>\$ 503,977</u>	<u>\$ (25,424)</u>	<u>\$63,214,542</u>

NOTES TO FINANCIAL STATEMENTS

	<u>Balance 09/01/07</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 08/31/08</u>
Capital assets not being depreciated:				
FERC relicensing costs	\$ -	\$ 985,304	\$ -	\$ 985,304
Reservoir and waterways	<u>36,001,159</u>	<u>-</u>	<u>-</u>	<u>36,001,159</u>
	<u>\$36,001,159</u>	<u>\$ 985,304</u>	<u>\$ -0-</u>	<u>\$36,986,463</u>
Capital assets being depreciated:				
Dam and spillway	\$18,659,332	\$ -	\$ -	\$18,659,332
Hydroelectric power plant	25,410,994	-	-	25,410,994
Buildings, structures and equipment	<u>1,857,077</u>	<u>135,332</u>	<u>96,401</u>	<u>1,896,008</u>
	<u>\$45,927,403</u>	<u>\$ 135,332</u>	<u>\$ 96,401</u>	<u>\$45,966,334</u>
Less accumulated depreciation for:				
Dam and spillway	\$ 9,313,799	\$ 279,890	\$ -	\$ 9,593,689
Hydroelectric power plant	8,881,490	381,165	-	9,262,655
Buildings, structures and equipment	<u>1,337,517</u>	<u>98,826</u>	<u>75,879</u>	<u>1,360,464</u>
	<u>\$19,532,806</u>	<u>\$ 759,881</u>	<u>\$ 75,879</u>	<u>\$20,216,808</u>
Capital assets being depreciated, net	<u>\$26,394,597</u>	<u>\$ (624,549)</u>	<u>\$ (20,522)</u>	<u>\$25,749,526</u>
Total capital assets, net	<u>\$62,395,756</u>	<u>\$ 360,755</u>	<u>\$ (20,522)</u>	<u>\$62,735,989</u>

Depreciation expense attributable to water conservation and reclamation totaled \$759,605 and \$759,881 for the years ended August 31, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 3. Contingent Liabilities

Public Law 98-571 directed the Federal Energy Regulatory Commission (FERC) to waive annual administration charges for the use of United States lands during the remaining term of the license to operate the Joint Project. The license expires 50 years from October 1, 1963. The waiver is contingent upon FERC determining that the power from the project is sold to the public without profit. All exemptions applied for through August 31, 2009 have been approved.

Note 4. Service Items

Service items included in the categories salaries and fees represent the expenses incurred by Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, individually, for the Joint Operation Water Supply and Hydroelectric System Fund. The associated expense was \$1,501,224 and \$1,439,248 for the years ended August 31, 2009 and 2008, respectively.

Note 5. Deposits

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Operation's deposits may not be returned to it. The Operation's policy to ensure there is no exposure to this risk is to require each financial institution to pledge their own securities to cover any amount in excess of Federal Depository Insurance Coverage. These securities must be held in the Operation's name. Accordingly, the Operation had no custodial credit risk related to its deposits at August 31, 2009 and 2008.

Note 6. Risk Management

Toledo Bend - Joint Operations is subject to risk of loss resulting from claims and judgments which may arise in the normal course of business. Significant losses resulting from such claims are covered by commercial insurance.

TOLEDO BEND - JOINT OPERATION

SCHEDULE OF INSURANCE IN FORCE

FOR THE FISCAL YEAR ENDING AUGUST 31, 2009

(Policy Period June 30, 2009 Through June 30, 2010)

NAME OF COMPANY	POLICY NO.	DESCRIPTION	LIMITS
Fidelity Insurance Co. (Chubb Group)	35830675	Commercial General Liability (includes terrorism)	\$1,000,000 Each Occurrence \$2,000,000 General Aggregate
AEGIS Houston Insurance Services, Inc.	J0330A1A08	Excess Liability (includes terrorism)	\$35,000,000 Each Occurrence
AIG Global - 25% Liberty Mutual - 50% Star Tech ACE - 25%	26465199 3LA106680008 BL801803	Property, Boiler and Machinery, Business Interruption, Flood and Earthquake (includes terrorism)	\$150,000,000 Per Occurrence Contractor's Equipment, Marine Equipment and Communications Equipment - Per Schedule \$3,000,000 Business Interruption
Federal Insurance Company	0873528604 (Texas and Louisiana)	Auto Liability/Physical Damage	\$1,000,000 Bodily Injury/ Property Damage
Federal Insurance Company	1071710168	Worker's Compensation - Texas and Louisiana	\$1,000,000 Each Accident \$1,000,000 Policy Limit \$1,000,000 Each Employee



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(337) 942-5217
Abbeville, LA
(337) 898-1497
New Iberia, LA
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Church Point, LA
(337) 684-2855

Frank A. Stagno, CPA*
Scott J. Broussard, CPA*
L. Charles Abshire, CPA*
P. John Blanchet, III, CPA*
Martha B. Wyatt, CPA*
Mary A. Castille, CPA*
Joey L. Breau, CPA*
Craig J. Viator, CPA*
Stacey E. Singleton, CPA*
John L. Istre, CPA*
Tricia D. Lyons, CPA*
Mary T. Miller, CPA*
Elizabeth J. Morcau, CPA*
Frank D. Bergeron, CPA*

Retired:

Sidney L. Broussard, CPA 1925-2005
Leon K. Poché, CPA 1984
James H. Breau, CPA 1987
Erma R. Walton, CPA 1988
George A. Lewis, CPA 1992
Geraldine J. Wimberley, CPA 1995
Lawrence A. Cramer, CPA 1999
Ralph Fricnd, CPA 2002
Donald W. Kelley, CPA 2005
George J. Trappey, III, CPA 2007
Terrel P. Dressel, CPA 2007
Herbert Lemoine II, CPA 2008

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors,
Sabine River Authority of Texas, and
The Board of Commissioners,
Sabine River Authority, State of Louisiana

We have audited the basic financial statements of the Toledo Bend - Joint Operation, a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana as of and for the year ended August 31, 2009, and have issued our report thereon dated October 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Toledo Bend - Joint Operation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Toledo Bend - Joint Operation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Toledo Bend - Joint Operation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Toledo Bend - Joint Operation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Toledo Bend - Joint Operation's financial statements that is more than inconsequential will not be prevented or detected by the Toledo Bend - Joint Operation's internal control.

*Members of American Institute of
Certified Public Accountants
Society of Louisiana Certified
Public Accountants*

* A Professional Accounting Corporation

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Toledo Bend - Joint Operation's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Toledo Bend - Joint Operation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of management, the Boards of Directors and Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Grasswell, P. L. Lewis : Bryan U.S.

Lafayette, Louisiana
October 12, 2009

TOLEDO BEND - JOINT OPERATION

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended August 31, 2009

We have audited the basic financial statements of Toledo Bend - Joint Operation, a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, as of and for the year ended August 31, 2009, and have issued our report thereon dated October 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our audit of the financial statements as of August 31, 2009 resulted in an unqualified opinion.

Section I - Summary of Auditors' Reports

A. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Significant Deficiencies ☐ Yes ☒ None Reported
Material Weaknesses ☐ Yes ☒ No

Compliance

Compliance Material to Financial Statements ☐ Yes ☒ No

Section II - Financial Statement Findings

No matters are reported.

TOLEDO BEND - JOINT OPERATION

SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended August 31, 2009

Section I. Internal Control and Compliance Material to the Financial Statements

None reported.

Section II. Internal Control and Compliance Material to Federal Awards

Not applicable.

Section III. Management Letter

There were no matters reported in a separate management letter for the year ended August 31, 2008.